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Ekin, John Jamison

President's address, 1922

Washington, D.C.

[1922]

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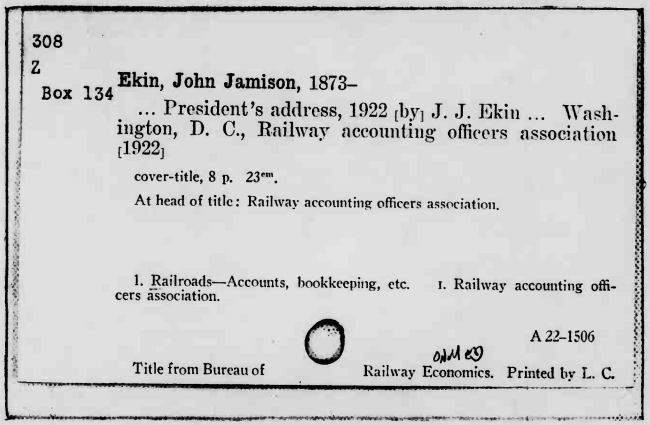

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Railway Accounting Officers Association

President's Address
1922

J. J. EKIN
Comptroller, Baltimore & Ohio R. R. Co.

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PRESIDENT'S ADDRESS

J. J. Ekin

One year ago the highest honor this Association can confer was given me when you made me your President. The time has come for me to give an account of my stewardship. When I assumed this trust and responsibility, it was with a deep sense of humility, for well I knew how difficult it would be to live up to the standard and reach the goal of accomplishment that had been set by my predecessors.

I was sure, however, of the sympathetic cooperation of my fellow members, especially those serving on the various committees. I soon found they were eager to help, and the work was passed on to them.

The Executive Committee and the Committee on General Accounts have always upheld my hands.

The work of the Committee on General Accounts is shown in detail in the bulletins issued from time to time.

I believe the other standing committees—Freight, Passenger, Disbursement, Overcharge Claims and Terminal—have broken all records for work performed and constructive results accomplished.

The Freight Committee established a record in 1921 when they handled 77 subjects and immediately proceeded to smash it in 1922, when you will note they handled 103 subjects, some of them being of the utmost importance, for example: Simplified Divisions; standard station forms and accounts; best method of handling interline accounts, and so on.

The work of this committee deserves praise in the highest terms and, I feel sure, will prove of lasting benefit to the Accounting Department and the railroads in general.

The Disbursement Committee has worked hard and faithfully in handling the subjects submitted to it, the most important being the preliminary work of revising the disbursement classification.

Time will not permit me to go into detail as to the work of each committee, but I do wish to express my appreciation of the loyal and faithful support I have received and the highly creditable work performed.

Mr. Secretary, no one but a man who has served as a president can appreciate you. I thank you for the splendid service you have rendered me and the Association during the past year.

There never has been a period in the history of the railroads to compare with the last five years. The period of Federal Control and the subsequent period of readjustment have borne heavily on the Accounting Officer, and the end is not yet.

The Transportation Act, under which we are trying to work out our salvation, was passed February 28, 1920, and in the masterly addresses delivered in 1920 and 1921 the many difficult problems growing out of the provisions of the Transportation Act were mentioned. Some of these problems are still with us and some new ones have been added.

The sharp decline in railroad traffic which commenced in the closing months of 1920 continued throughout 1921, and only recently have there been indications of a revival. This, and the fact that the Accounting Department had to carry on the work of stating the Federal, Guaranty Period and Corporate Accounts, as well as the new statistics required in enforcing the Act and furnishing the data for the special investigations and rate hearings, have made the life of the accounting officers anything but easy and pleasant.

The large increase in clerical forces and the expense thereof has been the subject of a great deal of discussion and criticism, and there has been apparently a tendency to attribute it all to accounting and statistical requirements, which is misleading for the reason that a large proportion of the forces now classified as clerical in the reports to the Interstate Commerce Commission are not engaged in accounting and statistical work. This applies to forces in the General Offices as well as on the line of road.

The Great War and Federal Control of railroads brought about many changes in accounting methods and practices. In 1917 the railroads had one set of accounts and books. Most of them now have three—Federal Control, Guaranty Period, and Corporate—and this condition adds vastly to the expense of accounting by requiring separations between different interests, for both receipts and disbursements.

The accounts for the Federal Control and Guaranty Periods are naturally subject to close inspection and check, and the carriers, through their accounting departments, have been required to prepare many detailed statements, which consume the time and attention of the most competent employees.

Since March 1, 1920, there have been almost constant Rate Hearings, both State and Interstate; there have been numerous investigations, for example: Hearings before the Committee on Interstate Commerce, United States Senate, and the Agricultural Inquiry; there have been continual Wage Hearings and the negotiations with employees; all of which have required the preparation of a large amount of detail data at a great expense on the part of the accounting and statistical forces.

Among the causes contributing to the cost of accounting today are changes in rates, complicated divisions, adjustments in wages of employees, and settlement of accounts with the Government covering Federal Control and Guaranty Periods. The stabilization of transportation rates and employees' wages, the use of simple divisions for apportioning revenues, and the settlement of Federal and Guaranty Accounts will result in a marked reduction in the cost of accounting.

I am optimistic, believing that a better day is dawning and that a better understanding of the railroad problem is being reached.

It was President Roosevelt, in his address to Congress, December, 1901, over twenty years ago, who said: "It must not be forgotten that our railways are the arteries through which the commercial life blood of our nation flows. Nothing could be more

foolish than the enactment of legislation which would unnecessarily interfere with the development and operation of the commercial agencies."

The Transportation Act, with the new elements it brings into play—for example, the Labor Board, the rate-making provisions, the fixing of a rate of return on investment and the duty it places upon the Commission of seeing that the railroads are operated in an efficient and economical manner—has made it even more necessary than before that the factors entering into the cost of transportation be stated in a simple and direct manner.

Railroad transportation is the industry engaged in producing train miles and selling transportation the product of these train miles, represented by passenger miles and ton miles.

Talk as we may, the energies of a railroad are all centralized—concentrated on producing this result.

First, we must have the railroad and its equipment—this is where capital contributes its share; then we must have man power, separated into two groups, management and the rank and file—labor's contribution—and lastly the materials and fuel, the joint contribution of capital and labor necessary for the maintenance and the operation of trains.

The cost—the expense of operating these trains—has its origin in very simple and direct objects—the time card for labor, which forms the basis of the payroll, or three-fifths of the total cost of operation, and the material order and fuel ticket for supplies and fuel consumed which form practically all of the remaining two-fifths of the expenses. So much for the outgo or expenses.

Now we turn to the income or receipts, and we find that they are based on equally simple and direct documents—the ticket and the freight bill.

There is no mystery in railroad accounting. It is simply auditing into the Treasury the receipts from the sale of transportation through the medium of tickets and freight bills and auditing out of the Treasury, through the medium of time cards, material orders and service bills, the cost of producing this transportation as represented by labor, fuel and material and supplies.

The trouble and complications we have are largely of our own origin; to illustrate, expensive methods of timekeeping and distribution, antiquated methods for handling material accounts, and a too refined and extended classification for stating these simple elements of cost.

Again on the income or revenue side we lack definite classification of commodities. We do not have clear and concise tariffs. We do not have in many instances simple and agreed-upon divisions for apportioning revenues, as a result of which many of the carriers have long-standing items of adjustment in their interline accounts, and claim channels are choked with overcharge and other claims.

It should be a simple operation to issue a bill of lading and waybill, move the shipment (carload or less carload) from point or origin to destination, and issue a freight bill for the transpor-

tation charges. I am sorry to say that the opposite is often the fact, and the journeys of many of these waybills might be compared with the wanderings of the ancient Ulysses.

I am indebted to my friend Evans for a report of canvass made by the Local Freight Agents' Association of Chicago, during a recent month, and the result is startling.

The total number of shipments delivered to connecting lines on local transfers, included in junction settlements during the month of February, 1922, was 202,120, and mark you, the number of transfers cut down by connecting lines on account of disputed divisions was 36,644 or 18 per cent. Almost one out of every five bills was a subject of dispute for divisions alone.

You who are familiar with the cost of handling corrections and claims appreciate what this means in increased clerks and expense at stations and in the Claim and Accounting offices.

The subject of divisions has been presented to Traffic Officers and the Executives, and I am glad to say that progress is being made in improving conditions, but a great work is still to be done, both as to rates and divisions.

The point I wish to bring out—to emphasize—is that it is not the higher accounting on which we need to lay stress, but we should look to our primary accounting, the detail work, and bend our efforts towards having it performed in a simple, direct and positive manner. It is the duty of this Association to see that this is done. It must be done in order that we, as accounting officers, in charge of one of the single largest groups of railroad employees, may do our part in having the railroads operated in an efficient and economical manner. There is a crying need today in many instances for proper instruction of the forces now engaged in the detail work.

We must not forget that accounting regulations and requirements enter into the minutest details of railroad operations; into the timekeeper's work, the material clerk's work, the agent's work—both ticket and freight. There must be the closest cooperation between the traffic, operating and accounting officers, if the desired results in operating these vast properties are to be obtained.

When I speak of cooperation, it is the real thing I have in mind, as in a battle when everyone has to stand shoulder to shoulder. So now it has become absolutely necessary in railroading to do likewise where the margin of safety, so far as income is concerned, has been reduced in many instances to the vanishing point.

The operating people are the "doers" of the work of transportation, and we should join with them—be at their right hand in assisting them in every way possible.

The same should be true of our relations with the traffic department. Our real work is stating the results clearly and accurately, holding up the mirror so that those responsible may see a clear and true reflection of what has been accomplished.

And with this knowledge we should keep in the closest and friendliest touch with the traffic and operating officers, pointing

out things that should be corrected and where improvements can be made.

This is the great work of the Accounting Officer, his great opportunity, the embracing of which has rendered his position so important and added so much to his prestige—the simple telling of the truth, not in a critical but in a helpful manner.

An eminent authority has said: "Railroad Management must have as its aid a system of accounts which becomes the eyes, the ears, the memory, and, to a large extent, the analysis and the reasoning, of a successful administration."

As Professor Adams so aptly stated: "The accountant stands at the center of an organized industry; every transaction passes through his hands; every problem must receive the imprint of his mind, for it is he who supplies, in concrete form, the information upon which reliance must be placed for deciding administrative policies. No other single officer of a great industry is required by virtue of his official position to know as much of all operations in all departments as the accounting officer. This is the explanation of a very significant fact disclosed by the recent history of great industries; namely, that of the development of the bookkeeper into an executive officer. The modern railway accountant is no longer a clerk whose duty it is to keep records according to instructions received from others. On the contrary he has become a critic, responsible for detecting unnecessary wastes in operation and for testing the efficiency of current administration. He is responsible, also, for exposing incompetence, whether of departments or of policies, and for pointing out those tendencies in the business world the recognition of which is essential to the successful administration of a property. It is no accident, therefore, that the railway accountant of today is classed among the higher executive officials in the organization of American railways."

The first thing we must realize is that there has been a radical change in social and economic conditions in this country and throughout the world. We have seen the development of teleg raphy, the telephone, electricity for light and power, the automobile, good roads, refrigeration in transit, Pullman cars, and the numerous other inventions and devices which have contributed in making our social and economic life more complex.

This has had a tremendous influence on railroad operations and costs. There has been an increase in the volume of traffic as measured by passengers one mile and tons one mile, but the real increase is in the expense measured by the expenditures to meet the demand for more ease and comfort, better dining car and other features in passenger service, the highly specialized service in handling perishable freight, and the great increase per capita in small shipments of merchandise, all of which has added so much to the station, operating and accounting costs of the railroads.

The increased demand for transportation in a refined instead of what may be termed a raw state, has been one of the principal factors in producing the increase in overhead expense, made up largely in wages paid clerical forces.

It should be remembered it requires the same outlay—probably more—to bill, collect and account for a shipment of 50 pounds of merchandise, as it does to bill, collect and account for 50 tons of coal handled as a carload.

It is for this reason that I urge we get back to first principles, start at the beginning in this transportation game and see how we can best account for these millions of transactions which produce our revenues and the equally numerous transactions which constitute our expenses.

The real problem, from an accounting standpoint, is not one of handling the income account, the profit and loss account, and the balance sheet, but a simple, uniform, direct and efficient method of verifying and stating the millions of items that compose the receipts from, and the cost of, transportation.

As an aid to uniformity and in producing economy I would suggest:

1. A plan of arbitration be put into effect for settling disputes relating to divisions of joint through rates similar to that now in effect for settling disputes between carriers relating to apportionment of loss and damage and overcharge claims.

2. The carriers should develop and put into effect standard methods for accounting for passenger and freight receipts, both local and interline. This should embrace practice in making and handling waybills, station forms and methods, reporting by agents and settlements as between carriers.

3. Carriers should develop and put into effect standard methods of timekeeping, material accounting and stating of disbursements.

4. The Interstate Commerce Commission, working jointly with this Association, should revise the Classifications. The work, as you know, is already under way with respect to operating expenses, and it is highly important that this classification be completed and put into effect January 1, 1923. I consider this the foundation of all of our constructive work.

The revision of the Disbursement Classification should be approached in the light of present conditions prevailing under the Transportation Act. The accounts should afford a prompt and accurate method of controlling expenses represented by disbursements for labor, fuel and material, and the classification should directly reflect those elements.

The nearer we can have the disbursement accounts show the current expenditures for labor—payrolls, fuel, and material and supplies—the more useful the accounts will become as a check and record of these items of cost, and I strongly urge that the revised classification should show separately, with as few accounts as possible, the direct items of expense for labor, fuel, material and miscellaneous, the aggregate of which constitutes the cost of maintaining and operating the railroad properties. This fact was very forcibly impressed on me through the requirements of the Interstate Commerce Commission in the recent Rate Hearings, the Senate Investigation, and in the preparation of data for submission to the United States Railroad Labor Board.

There should be a decided reduction, instead of an expansion, in the number of accounts. It is not a refinement and further extension of the Classification that is desired. The accounts, as few in number as possible, should be constructed so that a distribution can be made from the details of timekeeping, material disbursements, etc., with the least amount of additional expense. The thought is that with the proper timekeeping records and material and fuel disbursements a direct classification can be made in relatively few accounts, showing, separately, the expenditures for labor, fuel, material and miscellaneous, under the general headings of

Management
Maintenance, and
Operation.

The revised classification for disbursements should apply to each and every common carrier railroad without respect to its class or size.

5. The Interstate Commerce Commission and all other Federal and State Commissions should revise their reports and statistical requirements so as to conform with the summaries regularly prepared from detail records, in conformity with the revised classification, and should be confined to the annual report, monthly income account and the standard statistical units of comparison developed for each road.

The annual reports to the Commission, to the states, and to the stockholders, should be harmonized so that one form will answer the requirements of all.

The situation with respect to statistics has reached that point where it seems to me desirable that this Association of Accounting Officers cooperating with representatives of the Interstate Commerce Commission, should formulate a system of statistics that may be generally used by the individual carriers—the summaries to be furnished the Commission for its information and as a guide in determining whether the properties are being operated in an efficient and economical manner.

The statistics required by the Interstate Commerce Commission and the State and Federal bodies should be on a basis of maximum of essential operating data, with a minimum of detail.

The object of statistics is to establish facts. Let us not waste our energies to the preparation of a lot of useless, meaningless statistics, compiled at great expense, which cannot be utilized in producing results that will add one penny to the net revenue or be the means of improving the service.

I have conferred with Commissioner Potter and know how much in earnest he is in regard to this subject.

A working basis has been established with the Interstate Commerce Commission for the purpose of solving this problem. It remains for the railroads to get together and adopt the best methods in handling the details of accounting, discontinuing anything of questionable value now prepared, and eliminating the numerous

disputes and sources of expense, caused by lack of proper through rates and properly constructed divisions for apportioning revenue.

Let us finish as quickly as possible the work of settling the accounts for Federal Control and Guaranty Period operations, and then declare perpetual holiday in the production of useless statistics and reports.

The final feature in the object of this Association as set forth in the Constitution reads: "For benefiting of railways in every proper way that comes within the scope of such an association."

This provides a broad field for activity. To stand still is to retreat. It is the same with men as it is with races. When Caesar Augustus said "Rome is great enough—here we rest," he merely meant that he had reached his limit and had had enough of road building. There was lime in the bones of the boss. At the boundaries of the Empire and the end of each Roman road he set up a statue of the god Terminus.

This god Terminus supplied the world, especially the railroad world, a word. When Augustus set up his Termini, announcing to all mankind that this was the limit, the enemies of Rome took courage and became active. The Goths and Vandals, the barbarians, some of whom evidently had a sense of humor, had a way of picking up the Termini and carrying them inward, and finally they smashed them entirely.

The foregoing came to mind while reading some of the records of the Association, particularly of 1907. Time has completely proven how far from the mark was the opinion of those who, at that time, believed the work of the Association had been completed.

I have the greatest respect—nay, reverence—for what has been accomplished by this Association in the past, and I am thoroughly in accord with the thought, so ably expressed, that we should hasten slowly in making changes. But I firmly believe we now have in our grasp the greatest opportunity ever offered to do constructive work in revising our detail practices at home and in working out with representatives of the Interstate Commerce Commission a revision of the existing classifications and statistical requirements.

This Association must not stand still, must not retreat. The past is secure. The foundation is solid and broad enough on which to continue to build any structure required by the present or the future. Let us be true to our ideals, continuing the work which has already accomplished such great and lasting benefits, not only for ourselves but for the railroads and our country. Let us be filled with the spirit of the true pioneer, ever advancing, developing our powers for service and carrying forward the banner of progress.

In the words of Edward Everett Hale, the Grand Old Man of the nineteenth century:

"Look up, and not down;
Look out, and not in;
Look forward, and not back;
Lend a hand."

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